

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Maquoketa Valley Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Donna Kunde	President	2007
Justin Nieman	Vice President	2005
Gene Schultz	Board Member	2006
Bill Heims	Board Member	2005
Leola Kay Harris	Board Member	2006

Board of Education (After September 2005 Election)		
Donna Kunde	President	2007
Justin Nieman	Vice President	2008
Gene Schultz	Board Member	2006
Leola Kay Harris	Board Member	2006
John Zietlow	Board Member	2008

School Officials

Doug Tuetken	Superintendent	2006
Donna Pilgrim	District Secretary/ Business Manager	2006
Sue Seitz	Attorney	2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Maquoketa Valley Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Maquoketa Valley Community School District, Delhi, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

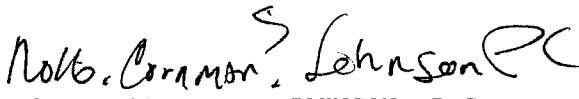
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Maquoketa Valley Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2006 on our consideration of Maquoketa Valley Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 through 32 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Maquoketa Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Maquoketa Valley Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,513,605 in fiscal 2005 to \$6,719,857 in fiscal 2006, while General Fund expenditures decreased from \$6,471,594 in fiscal 2005 to \$6,495,878 in fiscal 2006. This resulted in an increase in the District's fund balance from \$1,053,270 in fiscal 2005 to \$1,277,249 in fiscal 2006, which was a 21% increase from the prior year.
- An increase in local option sales and service tax during the year, allowed the Capital Projects fund balance to increase from \$467,092 to \$666,538. It also allowed for a \$200,000 transfer to the Debt Service to pay for a portion of the District's bonded indebtedness.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Maquoketa Valley Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Maquoketa Valley Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Maquoketa Valley Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Maquoketa Valley Community School District Annual Financial Report

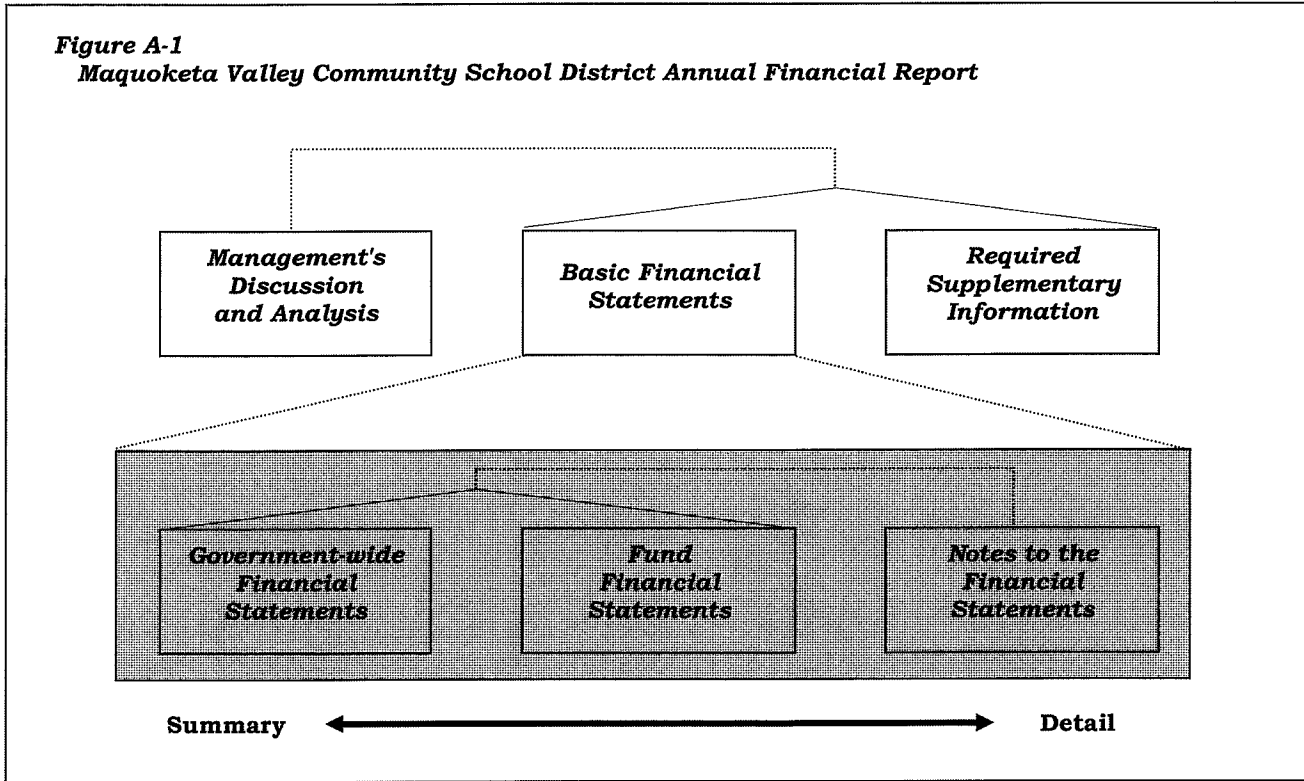


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

The District's governmental funds include the General Fund; Special Revenue Funds; Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 6,008,236	5,805,947	111,147	99,802	6,119,383	5,905,749	3.62%
Capital assets	9,368,089	9,652,226	76,561	91,673	9,444,650	9,743,899	-3.07%
Total assets	15,376,325	15,458,173	187,708	191,475	15,564,033	15,649,648	-0.55%
Long-term obligations	6,080,766	6,406,975	0	0	6,080,766	6,406,975	-5.09%
Other liabilities	3,701,873	3,860,171	5,902	4,206	3,707,775	3,864,377	-4.05%
Total liabilities	9,782,639	10,267,146	5,902	4,206	9,788,541	10,271,352	-4.70%
Net assets:							
Invested in capital assets, net of related debt	4,478,103	4,273,826	76,561	91,673	4,554,664	4,365,499	4.33%
Restricted	139,820	143,500	0	0	139,820	143,500	-2.56%
Unrestricted	975,763	773,701	105,245	95,596	1,081,008	869,297	24.35%
Total net assets	\$ 5,593,686	5,191,027	181,806	187,269	5,775,492	5,378,296	7.39%

The District's combined net assets increased by over 7% compared to the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased 2.56% from the prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased 24.35% over the prior year.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 491,285	515,412	201,418	207,320	692,703	722,732	-4.15%
Operating grants and contributions and restricted interest	792,582	762,409	146,887	140,291	939,469	902,700	4.07%
General revenues:							
Property tax	3,284,494	3,174,938	0	0	3,284,494	3,174,938	3.45%
Local option sales and service tax	409,115	473,426	0	0	409,115	473,426	-13.58%
Unrestricted state grants	3,031,088	3,049,439	0	0	3,031,088	3,049,439	-0.60%
Other	342,779	45,993	2,806	1,753	345,585	47,746	623.80%
Total revenues	8,351,343	8,021,617	351,111	349,364	8,702,454	8,370,981	3.96%
Program expenses:							
Governmental activities:							
Instructional	4,588,514	4,510,747	0	0	4,588,514	4,510,747	1.72%
Support services	2,388,599	2,209,611	9,027	0	2,397,626	2,209,611	8.51%
Non-instructional programs	0	0	347,547	372,961	347,547	372,961	-6.81%
Other expenses	971,571	796,331	0	0	971,571	796,331	22.01%
Total expenses	7,948,684	7,516,689	356,574	372,961	8,305,258	7,889,650	5.27%
Change in net assets	402,659	504,928	(5,463)	(23,597)	397,196	481,331	-17.48%
Net assets beginning of year	5,191,027	4,686,099	187,269	210,866	5,378,296	4,896,965	9.83%
Net assets end of year	\$ 5,593,686	5,191,027	181,806	187,269	5,775,492	5,378,296	7.39%

In fiscal 2006, property tax and unrestricted state grants account for 75.6% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.2% of the revenue from business type activities.

The District's total revenues were approximately \$8.7 million of which \$8.35 million was for governmental activities and \$.35 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 3.96% in revenues and a 5.27% increase in expenses. The increase in expenses was related to the increase in other expense costs during the year.

Governmental Activities

Revenues for governmental activities were \$8,351,343 and expenses were \$7,948,684.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,588,514	3,602,517
Support services	2,388,599	2,363,686
Other expenses	971,571	698,614
Totals	<u>\$ 7,948,684</u>	<u>6,664,817</u>

- A portion of the cost financed by users of the District's programs was \$491,285.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$792,582.
- The net cost portion of governmental activities was financed with \$3,284,494 in property tax, \$409,115 in local option sales and services tax, \$3,031,088 in unrestricted state grants, and unrestricted investment earnings of \$264,957.

Business-Type Activities

The District's only business-type activity is the School Nutrition Fund. Revenues of the District's business-type activities totaled \$351,111 in 2006. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. Expenses of the District's business-type activities were \$356,574 in 2006.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Maquoketa Valley Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$2,478,834, an increase of \$509,503 above last years ending fund balances of \$1,969,331.

Governmental Fund Highlights

- The increase in revenues in the General Fund was primarily due to an increase in local sources. The increase in expenditures was primarily due to an increase in support services function. The increase in revenues was enough to offset the increase in expenditures, to ensure the increase in the fund balance of \$223,979.
- The Capital Projects fund balance increased \$199,446 due to the fact that the revenues exceeded expenditures.
- The Physical Plant and Equipment Levy fund balance increased \$38,403, due to the combined effect of a decrease in revenues and increase in expenditures.
- The revenues increased in the Debt Service Fund, despite the decrease in taxes levied. A transfer of local option sales and service tax (LOSST) monies from the Capital Projects fund of \$200,000 was used to help payoff the Districts bonded indebtedness.

Proprietary Fund Highlights

- School Nutrition Fund net assets decreased from \$187,269 at June 30, 2005 to \$181,806 at June 30, 2006, representing a decrease of 2.9%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$416,543 less than budgeted revenues, a variance of 4.64%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function due to the recoding of expenditures to pass the upload requirement for the Department of Education.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$9,444,650, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See figure A-6) More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$339,884.

The original cost of the District's capital assets was \$12,985,258. Governmental funds account for \$12,721,188, with the remainder of \$264,070 accounted for in the Proprietary School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$254,848 at June 30, 2006, compared to \$307,679 reported at June 30, 2005. The decrease in machinery and equipment was due to the depreciation expense during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 50,079	50,079	0	0	50,079	50,079	0.00%
Buildings	8,668,496	8,874,906	0	0	8,668,496	8,874,906	-2.38%
Improvements other than buildings	471,227	511,235	0	0	471,227	511,235	-8.49%
Machinery and equipment	178,287	216,006	76,561	91,673	254,848	307,679	-20.73%
Total	\$ 9,368,089	9,652,226	76,561	91,673	9,444,650	9,743,899	-3.17%

Long-Term Debt

At year-end, the District had \$6,080,766 in general obligation and other long-term debt outstanding. This represents a decrease of 5.1% from last year's balance of \$6,406,975. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 5,605,000	6,030,000	-7.0%
Early retirement	475,766	376,975	26.2%
Totals	\$ 6,080,766	6,406,975	-5.1%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- State budget cuts continue to be a concern for the District, shifting the majority of funding on property taxes.
- The parochial school, St. Josephs elementary, closed in May. The District is expecting some of the students to enroll into the public schools
- The District 2006-2007 certified enrollment decreased 1.6 students, and a steady decline is expected in the future.
- Economic development within the District does not attract businesses that would significantly increase the assessed valuation, which shifts the funding to property taxes.
- Local options sales and service tax collections have allowed the district to pay a portion of the bonded indebtedness, thus reducing the amount of taxes levied in the Debt Service fund.
- The increases in utility and transportation costs are still a concern.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Donna Pilgrim, Board Secretary, Maquoketa Valley Community School District, 210 South Street, P.O. Box 186, Delhi, Iowa, 52223.

BASIC FINANCIAL STATEMENTS

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,292,586	104,797	2,397,383
Receivables			
Property tax:			
Delinquent	60,615	0	60,615
Succeeding year	3,475,420	0	3,475,420
Accounts	11,114	0	11,114
Due from other governments	168,501	0	168,501
Inventories	0	6,350	6,350
Capital assets, net of accumulated depreciation (Note 4)	9,368,089	76,561	9,444,650
Total Assets	15,376,325	187,708	15,564,033
Liabilities			
Accounts payable	42,375	1,388	43,763
Salaries and benefits payable	11,607	0	11,607
Accrued interest payable	172,471	0	172,471
Deferred revenue:			
Succeeding year property tax	3,475,420	0	3,475,420
Unearned revenue	0	4,514	4,514
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	250,000	0	250,000
Early retirement	109,543	0	109,543
Portion due after one year:			
General obligation bonds payable	5,355,000	0	5,355,000
Early retirement	366,223	0	366,223
Total Liabilities	9,782,639	5,902 0	9,788,541
Net Assets			
Investment in capital assets, net of related debt	4,478,103	76,561	4,554,664
Restricted for:			
Salary improvement program	1,454	0	1,454
Talented and gifted	2,857	0	2,857
Physical plant and equipment levy	68,743	0	68,743
Other special revenue purposes	66,766	0	66,766
Unrestricted	975,763	105,245	1,081,008
Total Net Assets	\$ 5,593,686	181,806	5,775,492

SEE NOTES TO FINANCIAL STATEMENTS.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					Total
Governmental activities:					
Instruction:					
Regular instruction	\$ 3,193,410	195,800	447,039	(2,550,571)	0
Special instruction	707,322	1,219	47,733	(658,370)	0
Other instruction	687,782	294,206	0	(393,576)	0
	4,588,514	491,225	494,772	(3,602,517)	0
Support services:					
Student services	223,028	0	0	(223,028)	0
Instructional staff services	241,523	0	0	(241,523)	0
Administration services	849,139	0	0	(849,139)	0
Operation and maintenance of plant services	717,916	0	0	(717,916)	0
Transportation services	356,993	60	24,853	(332,080)	0
	2,388,599	60	24,853	(2,363,686)	0
Other expenditures:					
Facilities acquisitions	9,831	0	0	(9,831)	0
Long-term debt interest	431,581	0	0	(431,581)	0
AEA flowthrough	272,957	0	272,957	0	0
Depreciation(unallocated)*	257,202	0	0	(257,202)	0
	971,571	0	272,957	(698,614)	0
Total governmental activities	7,948,684	491,285	792,582	(6,664,817)	0
Business-Type activities:					
Support services:					
Student services	1,755	0	0	0	(1,755)
Administration services	1,212	0	0	0	(1,212)
Operation and maintenance of plant services	6,060	0	0	0	(6,060)
	9,027	0	0	0	(9,027)
Non-instructional programs:					
Nutrition services	347,547	201,418	146,887	0	758
Total business-type activities	356,574	201,418	146,887	0	(8,269)
Total	\$ 8,305,258	692,703	939,469	(6,664,817)	(8,269)
General Revenues:					
Property tax levied for:					
General purposes				\$ 2,782,757	0
Debt service				432,587	0
Capital outlay				69,150	0
Local option sales and services tax				409,115	0
Unrestricted state grants				3,031,088	0
Unrestricted investment earnings				264,957	2,806
Other				77,822	0
Total general revenues				7,067,476	2,806
Changes in net assets				402,659	(5,463)
Net assets beginning of year				5,191,027	187,269
Net assets end of year				\$ 5,593,686	181,806

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Debt Service	Other Special Revenue Funds	Total
Assets					
Cash and pooled investments	\$ 1,201,333	564,793	213,014	313,446	2,292,586
Receivables:					
Property tax:					
Delinquent	47,169	0	7,933	5,513	60,615
Succeeding year	2,765,174	0	387,689	322,557	3,475,420
Accounts	8,517	1,435	0	1,162	11,114
Due from other governments	68,191	100,310	0	0	168,501
Total Assets	\$ 4,090,384	666,538	608,636	642,678	6,008,236
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 37,499	0	0	4,876	42,375
Salaries and benefits payable	10,462	0	0	1,145	11,607
Deferred revenue:					
Succeeding year property tax	2,765,174	0	387,689	322,557	3,475,420
Total liabilities	2,813,135	0	387,689	328,578	3,529,402
Fund balances:					
Reserved for:					
Debt Service	0	0	220,947	0	220,947
Salary improvement program	1,454	0	0	0	1,454
Talented and gifted	2,857	0	0	0	2,857
Unreserved	1,272,938	666,538	0	314,100	2,253,576
Total fund balances	1,277,249	666,538	220,947	314,100	2,478,834
Total Liabilities and Fund Balances	\$ 4,090,384	666,538	608,636	642,678	6,008,236

SEE NOTES TO FINANCIAL STATEMENTS.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 2,478,834
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,368,089
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(172,471)
Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(6,080,766)</u>
Net assets of governmental activities (page 13)	<u><u>\$ 5,593,686</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Debt Service	Other Special Revenue Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,553,012	409,115	432,587	298,895	3,693,609
Tuition	197,019	0	0	0	197,019
Other	146,632	22,442	169,274	298,697	637,045
State sources	3,592,796	0	284	192	3,593,272
Federal sources	230,398	0	0	0	230,398
Total revenues	6,719,857	431,557	602,145	597,784	8,351,343
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,930,250	15,520	0	140,776	3,086,546
Special instruction	707,322	0	0	0	707,322
Other instruction	417,195	0	0	270,587	687,782
	4,054,767	15,520	0	411,363	4,481,650
Support services:					
Student services	223,028	0	0	0	223,028
Instructional staff services	241,523	0	0	0	241,523
Administration services	766,696	0	25,546	847	793,089
Operation and maintenance of plant services	622,460	0	0	93,256	715,716
Transportation services	314,447	0	0	15,100	329,547
	2,168,154	0	25,546	109,203	2,302,903
Other expenditures:					
Facilities acquisitions	0	16,591	0	4,024	20,615
Long-term debt:					
Principal	0	0	350,000	0	350,000
Interest	0	0	282,665	0	282,665
AEA flowthrough	272,957	0	0	0	272,957
	272,957	16,591	632,665	4,024	926,237
Total expenditures	6,495,878	32,111	658,211	524,590	7,710,790
Excess(deficiency) of revenues over(under) expenditures	223,979	399,446	(56,066)	73,194	640,553
Other financing sources(uses):					
Transfers in	0	0	200,000	0	200,000
Transfers out	0	(200,000)	0	0	(200,000)
Refunding debt issued	0	0	5,605,000	0	5,605,000
Payment to the refunding escrow agent	0	0	(5,680,000)	0	(5,680,000)
Discount on bonds	0	0	(56,050)	0	(56,050)
Total other financing sources(uses)	0	(200,000)	68,950	0	(131,050)
Net change in fund balances	223,979	199,446	12,884	73,194	509,503
Fund balances beginning of year	1,053,270	467,092	208,063	240,906	1,969,331
Fund balances end of year	\$ 1,277,249	666,538	220,947	314,100	2,478,834

SEE NOTES TO FINANCIAL STATEMENTS.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 509,503

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 37,505	
Depreciation expense	(321,642)	(284,137)

Proceeds of long-term debt liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

Issued	(5,605,000)	
Repaid	6,030,000	425,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (148,916)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement		(98,791)
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Changes in net assets of governmental activities (page 14) \$ 402,659

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 104,797
Inventories	6,350
Capital assets, net of accumulated depreciation(Note 4)	<u>76,561</u>
Total Assets	<u>187,708</u>
Liabilities	
Accounts payable	1,388
Unearned revenue	<u>4,514</u>
Total Liabilities	<u>5,902</u>
Net Assets	
Invested in capital assets, net of related debt	76,561
Unrestricted	<u>105,245</u>
Total Net Assets	<u><u>\$ 181,806</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 201,418
TOTAL OPERATING REVENUES	<u>201,418</u>
OPERATING EXPENSES:	
Support services:	
Student services	
Other	1,755
Administration	
Services	1,212
Operation and maintenance	
of plant services	
Services	6,060
	<u>9,027</u>
Non-instructional programs:	
Food service operations:	
Salaries	142,469
Benefits	19,479
Supplies	167,070
Other	287
Depreciation	18,242
	<u>347,547</u>
TOTAL OPERATING EXPENSES	<u>356,574</u>
OPERATING LOSS	<u>(155,156)</u>
NON-OPERATING REVENUES:	
State sources	5,296
Federal sources	141,591
Interest income	2,806
TOTAL NON-OPERATING REVENUES	<u>149,693</u>
Change in net assets	(5,463)
Net assets beginning of year	<u>187,269</u>
Net assets end of year	<u>\$ 181,806</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 206,759
Cash received from miscellaneous operating activities	4,595
Cash payments to employees for services	(161,948)
Cash payments to suppliers for goods or services	(154,521)
Net cash used in operating activities	<u>(105,115)</u>
Cash flows from non-capital financing activities:	
State grants received	5,296
Federal grants received	121,525
Net cash provided by non-capital financing activities	<u>126,821</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(3,130)</u>
Cash flows from investing activities:	
Interest on investments	<u>2,806</u>
Net increase in cash and cash equivalents	21,382
Cash and cash equivalents at beginning of year	<u>83,415</u>
Cash and cash equivalents at end of year	<u><u>\$ 104,797</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (155,156)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	20,066
Depreciation	18,242
Decrease in inventories	409
Decrease in accounts receivable	9,628
Increase in accounts payable	1,388
Increase in unearned revenue	308
Net cash used in operating activities	<u><u>\$ (105,115)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 104,797</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$20,066.

SEE NOTES TO FINANCIAL STATEMENTS.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Maquoketa Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve, special education and pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Delhi, Earlville and Hopkinton, Iowa, and the predominate agricultural territory in Delaware county. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Maquoketa Valley Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Maquoketa Valley Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Delaware County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources

measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are

recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 200,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 50,079	0	0	50,079
Total capital assets not being depreciated	50,079	0	0	50,079
Capital assets being depreciated:				
Buildings	10,644,462	10,784	0	10,655,246
Land improvements	879,303	0	0	879,303
Machinery and equipment	1,169,599	26,721	59,760	1,136,560
Total capital assets being depreciated	12,693,364	37,505	59,760	12,671,109
Less accumulated depreciation for:				
Buildings	1,769,556	217,194	0	1,986,750
Land improvements	368,068	40,008	0	408,076
Machinery and equipment	953,593	64,440	59,760	958,273
Total accumulated depreciation	3,091,217	321,642	59,760	3,353,099
Total capital assets being depreciated, net	9,602,147	(284,137)	0	9,318,010
Governmental activities capital assets, net	\$ 9,652,226	(284,137)	0	9,368,089

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 260,940	3,130	0	264,070
Less accumulated depreciation	169,267	18,242	0	187,509
Business-type activities capital assets, net	\$ 91,673	(15,112)	0	76,561

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 16,094
Support services:	
Operation and maintenance of plant	2,200
Transportation	46,146
Administration	64,440
Unallocated depreciation	257,202
Total governmental activities depreciation expense	\$ 321,642
Business-type activities:	
Food services	\$ 18,242
Total business-type activities depreciation expense	\$ 18,242

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 6,030,000	5,605,000	6,030,000	5,605,000	250,000
Early retirement	376,975	181,673	82,882	475,766	109,543
Total	\$ 6,406,975	5,786,673	6,112,882	6,080,766	359,543

Bonded Debt

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of September 1, 2005		
		Principal	Interest	Total
2007	3.35%	\$ 250,000	362,189	612,189
2008	3.40	410,000	198,590	608,590
2009	3.40	420,000	184,650	604,650
2010	3.40	435,000	170,370	605,370
2011	3.50	450,000	155,580	605,580
2012-2016	3.55-3.95	2,495,000	523,232	3,018,232
2017-2018	4.00-4.05	1,145,000	69,785	1,214,785
Total		\$ 5,605,000	1,664,396	7,269,396

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. The employee must have worked an average of twenty-five or more hours per week and during the last 15 years the employee has worked at least thirty-six weeks per year. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 35% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay. The District paid \$82,882 in early retirement benefits during the year ended June 30, 2006.

(6) Bond Defeasement

On September 1, 2005, the District issued \$5,605,000 in general obligation bonds to advance refund \$5,680,000 outstanding general obligation bonds dated May 13, 1998. The new advance refunding bonds have been added to the appropriate financial statement and schedules. Defeasement of principal and interest for the year was \$5,605,000 and \$0. The present value savings of this bond refunding is \$222,696.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$238,086, \$232,837, \$244,206, respectively, equal to the required contributions for each year.

(8) Risk Management

Maquoketa Valley Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$272,957 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 4,527,673	204,224	4,731,897	4,963,694	4,963,694	(231,797)
State sources	3,593,272	5,296	3,598,568	3,695,303	3,695,303	(96,735)
Federal sources	230,398	141,591	371,989	460,000	460,000	(88,011)
Total revenues	8,351,343	351,111	8,702,454	9,118,997	9,118,997	(416,543)
Expenditures:						
Instruction	4,481,650	0	4,481,650	5,924,378	5,924,378	1,442,728
Support services	2,302,903	9,027	2,311,930	2,001,621	2,001,621	(310,309)
Non-instructional programs	0	347,547	347,547	712,554	712,554	365,007
Other expenditures	926,237	0	926,237	1,341,798	1,341,798	415,561
Total expenditures	7,710,790	356,574	8,067,364	9,980,351	9,980,351	1,912,987
Excess(deficiency) of revenues over(under) expenditures	640,553	(5,463)	635,090	(861,354)	(861,354)	1,496,444
Other financing sources, net	(131,050)	0	(131,050)	0	0	(131,050)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	509,503	(5,463)	504,040	(861,354)	(861,354)	1,365,394
Balance beginning of year	1,969,331	187,269	2,156,600	977,854	977,854	1,178,746
Balance end of year	\$ 2,478,834	181,806	2,660,640	116,500	116,500	2,544,140

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total
Assets					
Cash and pooled investments	\$ 174,593	67,537	67,303	4,013	313,446
Receivables:					
Property tax:					
Current year delinquent	4,245	0	1,268	0	5,513
Succeeding year	250,000	0	72,557	0	322,557
Accounts	600	384	172	6	1,162
Total Assets	\$ 429,438	67,921	141,300	4,019	642,678
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 847	4,029	0	0	4,876
Salaries and benefits payable	0	1,145	0	0	1,145
Deferred revenue:					
Succeeding year property tax	250,000	0	72,557	0	322,557
Total Liabilities	250,847	5,174	72,557	0	328,578
Fund balances:					
Unreserved	178,591	62,747	68,743	4,019	314,100
Total fund balances	178,591	62,747	68,743	4,019	314,100
Total Liabilities and Fund Balances	\$ 429,438	67,921	141,300	4,019	642,678

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total
REVENUES:					
Local sources:					
Local tax	\$ 229,745	0	69,150	0	298,895
Other	8,663	265,053	24,043	938	298,697
State sources	147	0	45	0	192
TOTAL REVENUES	238,555	265,053	93,238	938	597,784
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	100,703	0	0	40,073	140,776
Other instruction	0	270,587	0	0	270,587
Support services:					
Administration services	847	0	0	0	847
Operation and maintenance of plant services	57,545	0	35,711	0	93,256
Student transportation	0	0	15,100	0	15,100
Other expenditures:					
Facilities acquisitions	0	0	4,024	0	4,024
TOTAL EXPENDITURES	159,095	270,587	54,835	40,073	524,590
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	79,460	(5,534)	38,403	(39,135)	73,194
FUND BALANCE BEGINNING OF YEAR	99,131	68,281	30,340	43,154	240,906
FUND BALANCE END OF YEAR	\$ 178,591	62,747	68,743	4,019	314,100

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Post Prom	\$ 3,318	9,926	9,491	3,753
Drama & Speech	4,559	9,319	11,760	2,118
Art	36	0	0	36
Yearbook	4,502	13,430	10,676	7,256
Earlville Elem.	7,159	1,035	661	7,533
Johnston Elem.	7,622	1,656	538	8,740
Delhi Elem.	6,047	3,583	2,789	6,841
Music	3,774	39,513	32,117	11,170
Music Dept Trip	11,428	55,108	66,536	0
Band Uniform	1,772	1,256	231	2,797
Show Choir	(552)	0	(552)	0
Athletics Middle School	(1,841)	1,838	(53)	50
Iron Man/Weight Room	1,811	837	1,700	948
Cross Country	2,487	29	1,055	1,461
Golf	(1,425)	0	(1,375)	(50)
Boys Basketball	2,571	9,712	7,386	4,897
Football	5,364	7,790	11,751	1,403
Baseball	4,839	799	5,538	100
Boys Track	(156)	1,335	962	217
Wrestling	1,968	2,469	4,437	0
Girls Basketball	9,013	4,486	11,575	1,924
Volleyball	(3,938)	1,480	(2,458)	0
Softball	(23)	2,446	2,086	337
Girls Track	(302)	1,433	799	332
German	1,198	22	133	1,087
Spanish	5,821	10,268	6,001	10,088
FFA	(996)	29,996	29,309	(309)
Student Council	2,033	1,540	2,137	1,436
Cheerleaders	(1,419)	3,420	2,001	0
Drill Team	207	2,850	267	2,790
Color Guard	792	12	200	604
Class of 05	(64)	0	(64)	0
Class of 06	1,076	136	853	359
Class of 07	1,096	3,988	3,604	1,480
Class of 08	739	19	32	726
Class of 09	192	375	123	444
Class of 10	174	0	0	174
Assemblies	6,703	137	4,244	2,596
Student Services	(21,997)	42,749	41,343	(20,591)
Concession	2,693	61	2,754	0
Total	\$ 68,281	265,053	270,587	62,747

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	3,693,609	3,648,364	3,419,986	3,220,059
Tuition		197,019	170,199	191,156	220,652
Other		637,045	391,206	365,966	398,262
State sources		3,593,272	3,580,337	3,292,486	3,396,400
Federal sources		230,398	231,511	235,414	232,776
Total	\$	8,351,343	8,021,617	7,505,008	7,468,149
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	3,086,546	3,046,995	3,338,473	2,981,431
Special instruction		707,322	572,247	770,323	742,856
Other instruction		687,782	888,338	722,273	829,316
Support services:					
Student services		223,028	203,075	201,290	189,336
Instructional staff services		241,523	185,982	171,906	175,600
Administration services		793,089	754,983	731,626	687,632
Operation and maintenance of plant services		715,716	742,104	670,199	626,315
Transportation services		329,547	375,104	340,644	362,380
Non-instructional programs		0	0	0	2,062
Other expenditures:					
Facilities acquisitions		20,615	76,052	84,883	177,869
Long-term debt:					
Principal		350,000	335,000	320,000	305,000
Interest		282,665	298,643	313,422	327,605
AEA flowthrough		272,957	273,089	273,552	294,502
Total	\$	7,710,790	7,751,612	7,938,591	7,701,904

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Maquoketa Valley Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Maquoketa Valley Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Maquoketa Valley Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

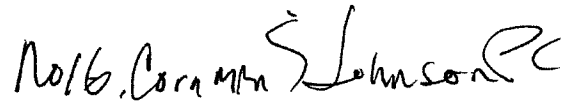
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Maquoketa Valley Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Maquoketa Valley Community School District and other parties to whom Maquoketa Valley Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Maquoketa Valley Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson P.C.", with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

September 20, 2006

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Receipts are posted and bank deposits are prepared by the same person, but they are verified and compared to bank deposits by a separate individual. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible. Substantial checks and balances have been implemented to reduce the opportunity for theft of cash.

Conclusion - Response accepted.

I-B-06 Meal Reimbursements - We noted during our audit that employees were being reimbursed for meals on day trip meetings, which would not be allowable per the Internal Revenue Service.

Recommendation - Circular E documents meal deductibility and what would be considered additional compensation. The District should revise current practices of reimbursing for day trip meals or include them on the employees W-2's as additional compensation.

Response - We will review our procedures and make the necessary changes.

Conclusion - Response accepted.

MAQUOKETA VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the support services function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will implement a process to monitor the certified budget quarterly or as needed.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kay Harris, Board Member Spouse owns Harris Electric	Repairs	\$995
Donna Pilgrim, Business Manager Owns Accent Connection	Supplies	\$14

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouse of the Board Member does not appear to represent a conflict of interest.

In accordance Attorney General's opinion dated July 2, 1990, the above transactions with the Business Manager do not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - All the depository banks that the District uses have been notified to get the front and back images of the checks

Conclusion - Response accepted.

II-K-06 Financial Condition - The District has negative accounts within the Special Revenue, Student Activity Fund

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We have implemented a budget for these accounts and will monitor these accounts to eliminate the deficits.

Conclusion - Response accepted.